

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

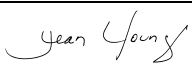
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	



City of Owosso, Michigan

Financial Report with Supplemental Information June 30, 2006

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City of Owosso, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12-13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Statement of Revenue, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Proprietary Funds:	
Statement of Net Assets	17
Statement of Revenue, Expenses, and Changes in Net Assets	18
Statement of Cash Flows	19
Fiduciary Funds:	
Statement of Net Assets	20
Statement of Changes in Net Assets - Pension and Other Employee Benefit Trust Fund	21
Component Units:	
Statement of Net Assets	22
Statement of Activities	23-24
Notes to Financial Statements	25-47
Required Supplemental Information	48
Budgetary Comparison Schedule - General Fund	49
Budgetary Comparison Schedule - Major Special Revenue Fund - Major Street Fund	50
Pension System Schedules of Funding Progress and Employer Contributions	51

City of Owosso, Michigan

Contents (Continued)

Other Supplemental Information	52
Budgetary Comparison Schedule - Local Street Fund	53
Nonmajor Governmental Funds:	
Combining Balance Sheet	54-55
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	56-57

Independent Auditor's Report

To the City Council
City of Owosso, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Owosso, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Owosso, Michigan's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Owosso, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules, and pension system schedules of funding progress and employer contributions, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Owosso, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Owosso, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 1, the City has fully implemented the financial reporting model for retroactive reporting of infrastructure, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2005.

Plante & Moran, PLLC

November 21, 2006

City of Owosso, Michigan

Management's Discussion and Analysis

The following discussion and analysis of the City of Owosso's annual financial report presents our view of the City's financial performance during the fiscal year that ended June 30, 2006. Please read it in conjunction with the City's basic financial statements, which follow beginning on page 11.

Overview of the Financial Statements

This annual report consists of the following report sections:

- Management's discussion and analysis (this section)
- Government-wide financial statements
- Fund financial statements
- Notes to financial statements
- Supplementary information
- Combining statements for nonmajor governmental funds

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements provide both long-term and short-term information about the City's overall financial status. The City's government-wide financial statements begin on page 11 of this report. These statements report information about the City as a whole under the accrual method of accounting, which is similar to the accounting used by most private-sector companies. The statement of net assets includes both current and long-term assets and liabilities and the statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid. The combined objective of the government-wide financial statements is to report the City's net assets and how they have changed. The reporting of net assets is one way to measure the City's financial position.

The City's government-wide financial statements divide the reported information into three categories:

- Governmental activities - Most of the City's basic services are included here, such as police, fire, public works, recreation, and general services. Property taxes, state revenue sharing, and locally raised revenues are used to finance most of these activities.
- Business-type activities - The City charges fees to customers to cover the costs of certain services it provides. The City's water, sewer, wastewater, and contract for transportation services are included in this category.
- Component units - The City includes other legal entities in its report such as the Downtown Development Authority, Tax Increment Financing Authority, and Brownfield Redevelopment Authority. The City is financially accountable for these "component units" although they are legally separate entities.

City of Owosso, Michigan

Management's Discussion and Analysis (Continued)

Fund Financial Statements

The fund financial statements include the balance sheet and statement of revenues, expenditures, and changes in fund balances which begin on page 14 of this report. These statements provide more detailed information about the City's most significant funds. The City uses funds to account for specific sources of funding and spending for particular purposes. Some funds are required by state law or bond covenants and others are established to control and manage money for particular purposes.

The City has three fund types that use different accounting approaches:

- Governmental funds - Most of the City's basic services are included in governmental funds. These funds focus on (1) how cash and other financial assets that can readily be converted to cash, flow in and out and (2) the balances left at year end available for spending. These funds are reported using the modified accrual accounting method that measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Because governmental fund information has a short-term focus and the government-wide statement incorporates long-term information, we reconcile the differences at the bottom of the fund financial statements.
- Proprietary funds - When the City charges customer fees for the services it provides, the fees are generally reported in proprietary funds. Similar to the reporting method used on the government-wide statements, proprietary funds provide both long- and short-term financial information.
 - In fact, the City's enterprise funds (water, sewer, wastewater and transportation) are the business-type activities reported in the government-wide financial statements, but provide more detail in the proprietary funds statements.
 - We use an Internal Service Fund (the other type of proprietary fund) to report equipment rental services to the City's other programs and activities, which is reported in the Fleet Maintenance Fund.
- Fiduciary funds - The City is the trustee, or fiduciary, for the Employees' Retirement System and also acts as a collection agent for certain other taxing jurisdictions such as the schools and county. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. A separate statement of fiduciary net assets and a statement of changes in fiduciary net assets related to the Employees' Retirement System are presented on pages 20 and 21 of this report. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

City of Owosso, Michigan

Management's Discussion and Analysis (Continued)

Financial Highlights

The following table illustrates the varying results of the governmental activities and business-type activities that combine to capture the City's total net assets (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
	(as restated)					
Current assets	\$ 6,980	\$ 6,725	\$ 5,866	\$ 5,495	\$ 12,846	\$ 12,220
Noncurrent assets	35,578	36,051	15,082	15,532	50,660	51,583
Total assets	42,558	42,776	20,948	21,027	63,506	63,803
Current liabilities	1,714	1,396	422	356	2,136	1,752
Long-term liabilities	1,890	2,194	4,727	4,817	6,617	7,011
Total liabilities	3,604	3,590	5,149	5,173	8,753	8,763
Net assets:						
Invested in capital assets -						
Net of related debt	33,664	33,759	10,408	10,797	44,071	44,556
Restricted	2,555	2,747	1,699	1,411	4,255	4,158
Unrestricted	2,735	2,680	3,692	3,646	6,427	6,326
Total net assets	<u>\$ 38,954</u>	<u>\$ 39,186</u>	<u>\$ 15,799</u>	<u>\$ 15,854</u>	<u>\$ 54,753</u>	<u>\$ 55,040</u>

The net assets of the City's governmental activities were substantially unchanged, decreasing by 0.6 percent to \$39.0 million. Capital investments funded with current resources were on pace with annual consumption (depreciation). Sale of land, vehicle and roadway disposals, and amounts expensed for depreciation account for the 1.0 percent decrease in noncurrent assets. Increases to deferred revenue and tax capture money held as disbursing agent for a component unit increased current liabilities. Long-term liabilities were reduced by 13.9 percent.

The net assets of our business-type activities decreased less than 0.5 percent to \$15.8 million. The Water Fund generated revenues sufficient to cover operational costs and service annual principal and interest payments. Capital replacement lags consumption from a self-imposed rate freeze. The Sewer Fund had nearly \$183,000 surplus from operations in anticipation of future expenses related to a project separating storm and sanitary flows. In the Wastewater Fund, after operations and capital acquisitions, cash from investments and capital charges from participating governmental units funded two-thirds of annual depreciation.

In summary, business-type activities was generated from operations and investing cash to purchase \$231,000 in assets, service debt payments of \$275,000, and fund 78.9 percent of annual depreciation. No new debt was incurred.

City of Owosso, Michigan

Management's Discussion and Analysis (Continued)

The following table displays the City's changes in net assets (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
	(as restated)					
Revenue						
Program revenue:						
Charges for services	\$ 1,115	\$ 1,416	\$ 4,490	\$ 4,302	\$ 5,605	\$ 5,718
Operating grants and contributions	1,183	1,344	-	-	1,183	1,344
Capital grants and contributions	126	404	300	1,129	426	1,533
General revenue:						
Property taxes	3,690	3,648	41	-	3,731	3,648
State-shared revenue and other sources	1,920	1,949	-	-	1,920	1,949
Unrestricted investment earnings	223	116	177	91	400	207
Miscellaneous	60	18	-	-	60	18
Total revenue	8,317	8,895	5,008	5,522	13,325	14,417
Program Expenses						
General government	1,464	1,649	-	-	1,464	1,649
Public safety	3,335	3,143	-	-	3,335	3,143
Public works	2,929	2,630	-	-	2,929	2,630
Community and economic development	479	1,256	-	-	479	1,256
Recreation and culture	295	336	-	-	295	336
Interest on long-term debt	46	70	-	-	46	70
Water Supply System	-	-	2,050	2,067	2,050	2,067
Sewage Disposal System	-	-	1,359	1,246	1,359	1,246
Wastewater Treatment System	-	-	1,612	1,540	1,612	1,540
Shaiwassee Area Transportation Authority	-	-	41	-	41	-
Total program expenses	8,548	9,084	5,062	4,853	13,610	13,937
Change in Net Assets	\$ (231)	\$ (189)	\$ (54)	\$ 669	\$ (285)	\$ 480

City of Owosso, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

Summary:

- The cost of all governmental activities this year was \$8.5 million.
- The amount that City taxpayers paid for these activities through City taxes was \$3.7 million.
- \$4.6 million was paid by the beneficiaries of the program's activities or by other governments and organizations that subsidized certain programs with grants and contributions.

Analysis:

Revenues

- Charge for Services/Sales - Approximately \$289,000 of the \$301,000 decline reflects the torrid pace of lot sales in the Subdivision Fund. Compare prior year sales of \$627,000 versus this year's sales of \$338,000. In two years the City has recovered almost \$1.0 million of a \$1.5 million investment designed to increase tax base and population. Sales have far exceeded the pro forma absorption rate; however, we expect sales to temper based on trend data.
- Grants and Contributions - a Small Cities grant in the prior year for a major road improvement accounts for three-quarters of the decline. This grant source is on a rotational basis. The City was awarded another grant in fiscal 2007.
- Miscellaneous Revenue - Miscellaneous revenue was up this year from payoffs of two land contracts held and a contribution from the Downtown Development Authority for reconstruction of a parking lot.

Expenses

- Community and Economic Development - The prior year included a majority of costs to complete the Osburn Lakes Subdivision.
- Public Works - In the current year, the value of infrastructure related to sidewalks, net of accumulated depreciation, was retroactively recorded in accordance with the full implementation of GASB 34, *Financial Reporting Model*. Depreciation expense for the current year related to sidewalks was \$75,000. In the prior year, approximately \$789,000 was spent for street reconstruction - funded largely by grants - and was capitalized and not expensed. This year, \$203,000 was spent on maintenance of existing roads, which was treated as an expense.

City of Owosso, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

Summary:

- Total revenues of the City's business-type activities, water, sewer, wastewater and Shiawassee Area Transportation Agency were \$5.0 million and operating expenses were just under \$5.1 million. The net change was a minuscule \$54,000.

Analysis:

Revenues

- Capital Grants and Contributions - In the prior year, the Subdivision Fund contributed capital of \$767,000 of new water and sewer infrastructure to the respective funds.

Expenses

- Sewer Fund - An increase in contractual and professional services related to the sanitary/storm separation project. This is a multi-year effort that will appear in future operational statements.
- Wastewater Fund - The increase in operational costs for chemicals and utilities increased costs above inflation at 14.1 percent.

The City's Funds

As the City completed the year, its governmental funds (see the balance sheet presented on page 14) reported a combined fund balance of \$5.6 million.

- State revenue sharing, which represents 28.8 percent of General Fund revenues, decreased \$23,000 from the prior year.
- Property tax revenues, the greatest share of revenue for the General Fund at 52.0 percent, increased by 1.3 percent.
- Employment levels remained at prior year levels; adjustments to employee compensation were less than the Consumer Price Index; and health care benefits were reduced by implementing employee deductibles and co-pays.
- Revenues and other financing sources exceeded expenditures and other financing uses in the governmental funds by \$79,000. The City transferred \$95,000 belonging to the interjurisdictional drug team, MAGNET, to a new fiduciary, City of St. Louis. This one-time other financing use reduced the excess of revenue and other financing sources over expenditures and other financing uses from \$174,000 to \$79,000.

City of Owosso, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Overall, revenues were up 2.8 percent from last year. Expenditures from recurring operations were up 4.0 percent this year over last year. The City invested \$360,000 for capital outlay and contributed \$265,000 to other funds, component units, and agencies. The most significant budget amendment reflects a decrease in revenues and expenditures for a recreational grant of \$582,000 that was not funded by the State. The public safety department continues to represent the largest component of General Fund operations at 54 percent of expenditures. The City completed the fiscal year adding \$26,000 to fund balance.

Capital Assets

At June 30, 2006, the City had invested \$88.0 million in a broad range of capital assets, including police and fire equipment, buildings, technology, parks and recreational facilities, roads, wastewater facility, and water filtration plant, water and sewer lines as detailed in the table below and Note 5 to the financial statements.

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
	(as restated)					
Land	\$ 4,278,332	\$ 4,373,865	\$ 451,314	\$ 396,314	\$ 4,729,646	\$ 4,770,179
Roads and sidewalks	40,687,465	40,483,749	-	-	40,687,465	40,483,749
Land improvements	1,302,460	1,302,460	8,123,411	7,953,255	9,425,871	9,255,715
Buildings	2,790,192	2,773,798	13,239,935	13,239,936	16,030,127	16,013,734
Vehicles	3,220,208	2,812,373	63,657	63,657	3,283,865	2,876,030
Office furnishings	1,404,129	1,346,819	-	-	1,404,129	1,346,819
Machinery and equipment	2,024,027	1,938,269	10,346,208	10,340,508	12,370,235	12,278,777
Subtotal assets	55,706,813	55,031,333	32,224,525	31,993,670	87,931,338	87,025,003
Accumulated depreciation	20,129,297	18,980,276	17,141,840	16,462,008	37,271,137	35,442,284
Net capital assets	<u>\$ 35,577,516</u>	<u>\$ 36,051,057</u>	<u>\$ 15,082,685</u>	<u>\$ 15,531,662</u>	<u>\$ 50,660,201</u>	<u>\$ 51,582,719</u>

Debt

At year end, the City had \$1.9 million in governmental activities debt and \$4.7 million in business-type activities of bonds and notes outstanding. The City retired \$694,000 of bonds and notes maturing during the year. More detailed information about the City's long-term liabilities is presented in Note 7 to the financial statements.

City of Owosso, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budget and Rates

The City's budget for the 2007 fiscal year provides a quarter mill decrease in the rate for property taxes. Revenues derived from property taxes will not keep pace with inflation based on statutory restrictions. State revenue sharing to the City, which represents 29.0 percent of General Fund revenue, which were flat for fiscal 2006, are projected to be flat in fiscal 2007, and given the structural problems facing the State and the impending sunset of the revenue sharing formula, future revenue sharing is expected to be in jeopardy.

Total expenditures in the General Fund for the 2007 fiscal year are set at \$7.0 million. Capital outlay expenditures are set at \$1.1 million. The General Fund budget is balanced without a draw on reserves.

Contacting the City's Financial Management

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the finance director's office at the City of Owosso, 301 E. Main Street, Owosso, Michigan, 48867 or visit the City's website at www.ci.owosso.mi.us to e-mail questions or comments.

City of Owosso, Michigan

Statement of Net Assets June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 4,697,928	\$ 3,408,024	\$ 8,105,952	\$ 5,364
Receivables - Net (Note 4)	1,863,606	411,046	2,274,652	328,051
Internal balances	(98,365)	98,365	-	-
Inventories and land held for sale	333,521	220,234	553,755	-
Prepaid costs and other assets	183,521	23,258	206,779	-
Restricted assets (Note 8)	-	1,704,854	1,704,854	-
Capital assets - Net (Note 5):				
Nondepreciable	4,278,332	451,314	4,729,646	-
Depreciable	31,299,184	14,631,371	45,930,555	-
Total assets	42,557,727	20,948,466	63,506,193	333,415
Liabilities				
Accounts payable	754,450	160,325	914,775	289,440
Accrued and other liabilities	47,348	141,376	188,724	99,834
Deferred revenue (Note 4)	198,373	-	198,373	-
Noncurrent liabilities (Note 7):				
Due within one year	714,225	120,206	834,431	25,000
Due in more than one year	1,889,180	4,727,405	6,616,585	-
Total liabilities	3,603,576	5,149,312	8,752,888	414,274
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	33,663,629	10,407,685	44,071,314	-
Restricted:				
Improvement and replacement fund	844,628	1,349,115	2,193,743	-
Revenue bond reserve	-	350,000	350,000	-
Streets and highways	1,931	-	1,931	-
Debt service	718,220	-	718,220	-
Other purposes	990,684	-	990,684	-
Unrestricted	2,735,059	3,692,354	6,427,413	(80,859)
Total net assets (deficit)	<u>\$ 38,954,151</u>	<u>\$ 15,799,154</u>	<u>\$ 54,753,305</u>	<u>\$ (80,859)</u>

City of Owosso, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,464,172	\$ 15,270	\$ 157,533	\$ -
Public safety	3,335,392	582,769	-	-
Public works	2,928,989	37,805	1,001,488	125,918
Community and economic development	479,345	458,942	-	-
Recreation and culture	295,285	19,957	23,602	-
Interest on long-term debt	45,313	-	-	-
Total governmental activities	8,548,496	1,114,743	1,182,623	125,918
Business-type activities:				
Water Supply System	2,050,550	1,812,392	-	-
Sewage Disposal System	1,359,429	1,529,548	-	-
Wastewater Treatment System	1,611,836	1,148,405	-	300,001
Shiawassee Area Transportation Authority	40,629	-	-	-
Total business-type activities	5,062,444	4,490,345	-	300,001
Total primary government	<u>\$ 13,610,940</u>	<u>\$ 5,605,088</u>	<u>\$ 1,182,623</u>	<u>\$ 425,919</u>
Component units:				
Downtown Development Authority	\$ 458,356	\$ -	\$ -	\$ -
Local Development Financing Authority II	8,313	-	-	-
Brownfield Redevelopment Authority	15,530	-	8,804	-
Total component units	<u>\$ 482,199</u>	<u>\$ -</u>	<u>\$ 8,804</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues and other sources				
Unrestricted investment earnings				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets (Deficit) - Beginning of year (as restated) (Note 1)				
Net Assets (Deficit) - End of year				

Statement of Activities
Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (1,291,369)	\$ -	\$ (1,291,369)	\$ -
(2,752,623)	-	(2,752,623)	-
(1,763,778)	-	(1,763,778)	-
(20,403)	-	(20,403)	-
(251,726)	-	(251,726)	-
(45,313)	-	(45,313)	-
(6,125,212)	-	(6,125,212)	-
-	(238,158)	(238,158)	-
-	170,119	170,119	-
-	(163,430)	(163,430)	-
-	(40,629)	(40,629)	-
-	(272,098)	(272,098)	-
(6,125,212)	(272,098)	(6,397,310)	-
-	-	-	(458,356)
-	-	-	(8,313)
-	-	-	(6,726)
-	-	-	(473,395)
3,689,912	40,715	3,730,627	545,397
1,920,083	-	1,920,083	-
223,726	177,016	400,742	91
60,251	-	60,251	420
5,893,972	217,731	6,111,703	545,908
(231,240)	(54,367)	(285,607)	72,513
39,185,391	15,853,521	55,038,912	(153,372)
\$ 38,954,151	\$ 15,799,154	\$ 54,753,305	\$ (80,859)

City of Owosso, Michigan

Governmental Funds Balance Sheet June 30, 2006

	General Fund	Major Street Fund	Subdivision Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 3,345,504	\$ -	\$ -	\$ 1,352,424	\$ 4,697,928
Receivables - Net (Note 4)	807,761	220,311	64,888	770,646	1,863,606
Prepaid costs and other assets	59,561	-	-	123,960	183,521
Due from other funds (Note 6)	1,116,487	-	-	1,007,175	2,123,662
Inventories and land held for sale	67,521	-	266,000	-	333,521
Total assets	<u>\$ 5,396,834</u>	<u>\$ 220,311</u>	<u>\$ 330,888</u>	<u>\$ 3,254,205</u>	<u>\$ 9,202,238</u>
Liabilities and Fund Balances (Deficit)					
Liabilities					
Accounts payable	\$ 458,583	\$ 153,865	\$ 26,586	\$ 109,814	\$ 748,848
Accrued and other liabilities	16,218	-	-	1,439	17,657
Due to other funds	960,451	64,942	784,402	163,863	1,973,658
Deferred revenue (Note 4)	401,259	-	64,888	425,130	891,277
Total liabilities	1,836,511	218,807	875,876	700,246	3,631,440
Fund Balances (Deficit)					
Reserved for other purposes:					
Other purposes - General Fund	127,082	-	-	-	127,082
Other purposes - Special Revenue Funds	-	-	-	187,562	187,562
Other purposes - Debt Service Funds	-	-	-	123,960	123,960
Other purposes - Capital Projects Funds	-	-	266,000	-	266,000
Designated for:					
Subdivision deficit	810,988	-	-	-	810,988
Bridge construction	356,000	-	-	-	356,000
Special assessed property reversions	100,000	-	-	-	100,000
Economic development projects	500,000	-	-	-	500,000
Owosso drain project	205,533	-	-	-	205,533
Unreserved, reported in:					
General Fund	1,460,720	-	-	-	1,460,720
Special Revenue Funds	-	1,504	-	1,648,177	1,649,681
Debt Service Funds	-	-	-	594,260	594,260
Capital Projects Funds	-	-	(810,988)	-	(810,988)
Total fund balances (deficit)	<u>3,560,323</u>	<u>1,504</u>	<u>(544,988)</u>	<u>2,553,959</u>	<u>5,570,798</u>
Total liabilities and fund balances (deficit)	<u>\$ 5,396,834</u>	<u>\$ 220,311</u>	<u>\$ 330,888</u>	<u>\$ 3,254,205</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	33,975,514
Special assessment, revolving loan, and other receivables are expected to be collected over several years, and are not available to pay for current year expenditures	692,903
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(2,408,542)
Internal Service Funds are included as part of governmental activities	1,123,478

Net assets of governmental activities \$ 38,954,151

City of Owosso, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General Fund	Major Street Fund	Subdivision Fund	Other Governmental Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 3,262,910	\$ -	\$ -	\$ 167,145	\$ 3,430,055
Licenses and permits	120,722	-	-	-	120,722
Federal grants	59,419	-	-	-	59,419
State and local sources	1,800,187	931,525	-	590,805	3,322,517
Charges for services	530,361	37,805	-	120,969	689,135
Fines and forfeitures	67,678	-	-	-	67,678
Interest and rentals	204,871	1,904	-	14,643	221,418
Other	207,073	-	338,220	89,328	634,621
Total revenue	6,253,221	971,234	338,220	982,890	8,545,565
Expenditures - Current					
General government	1,425,976	-	-	-	1,425,976
Public safety	3,248,099	-	-	-	3,248,099
Public works	819,495	912,309	-	734,510	2,466,314
Recreation and culture	245,861	-	-	41,243	287,104
Community and economic development	254,463	-	94,593	24,600	373,656
Debt service	-	-	-	570,084	570,084
Total expenditures	5,993,894	912,309	94,593	1,370,437	8,371,233
Excess of Revenue Over (Under) Expenditures	259,327	58,925	243,627	(387,547)	174,332
Other Financing Sources (Uses)					
Transfers in (Note 6)	-	33,726	-	381,962	415,688
Transfers out (Note 6)	(232,788)	(182,900)	-	-	(415,688)
Transfer of excess funds to other governmental units	-	-	-	(95,389)	(95,389)
Total other financing sources (uses)	(232,788)	(149,174)	-	286,573	(95,389)
Net Change in Fund Balance	26,539	(90,249)	243,627	(100,974)	78,943
Fund Balances (Deficit) - Beginning of year	3,533,784	91,753	(788,615)	2,654,933	5,491,855
Fund Balances (Deficit) - End of year	<u>\$ 3,560,323</u>	<u>\$ 1,504</u>	<u>\$ (544,988)</u>	<u>\$ 2,553,959</u>	<u>\$ 5,570,798</u>

City of Owosso, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	78,943
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation		260,815
Depreciation on general fixed assets is recorded in the statement of activities; it is not reported at the fund level		(1,111,592)
Revenues are recorded in the statement of activities when they are earned; they are not reported in the funds until collected or collectible within 60 days of year end		(122,401)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		520,000
Interest expense is recorded in the statement of activities when incurred; it is not reported in the funds until paid or payable within 60 days of year end		7,517
Increase in accumulated sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities		2,274
Internal Service Funds are also included as governmental activities		<u>133,204</u>

Change in Net Assets of Governmental Activities	\$	<u>(231,240)</u>
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City of Owosso, Michigan

Proprietary Funds Statement of Net Assets June 30, 2006

	Enterprise Funds					Governmental
	Major Funds			Nonmajor Fund		Activities
	Water Supply System	Sewage Disposal System	Wastewater Treatment System	Shiawassee Area Transportation Authority	Total Business-type Activities	Internal Service Fund
Assets						
Current assets:						
Cash and investments (Note 3)	\$ 2,081,681	\$ 1,139,043	\$ 187,300	\$ -	\$ 3,408,024	\$ -
Receivables - Net (Note 4)	337,555	159	-	-	337,714	-
Due from other funds (Note 6)	73,307	320,481	94,730	-	488,518	-
Due from other governmental units (Note 4)	73,246	-	-	86	73,332	-
Inventories	220,234	-	-	-	220,234	-
Prepaid costs and other assets	23,258	-	-	-	23,258	-
Total current assets	2,809,281	1,459,683	282,030	86	4,551,080	-
Noncurrent assets:						
Restricted assets (Note 8)	355,739	-	1,349,115	-	1,704,854	-
Capital assets (Note 5)	9,432,126	992,290	4,658,269	-	15,082,685	1,602,002
Total noncurrent assets	9,787,865	992,290	6,007,384	-	16,787,539	1,602,002
Total assets	12,597,146	2,451,973	6,289,414	86	21,338,619	1,602,002
Liabilities						
Current liabilities:						
Accounts payable	93,358	21,795	45,172	-	160,325	5,601
Accrued and other liabilities	141,376	-	-	-	141,376	9,845
Due to other funds	293,589	94,730	1,834	-	390,153	248,369
Current portion of compensated absences (Note 7)	24,965	6,353	13,888	-	45,206	3,985
Current portion of long-term debt (Note 7)	75,000	-	-	-	75,000	46,178
Total current liabilities	628,288	122,878	60,894	-	812,060	313,978
Noncurrent liabilities (Note 7):						
Provision for compensated absences	65,339	20,117	41,949	-	127,405	11,837
Long-term debt - Net of current portion	4,600,000	-	-	-	4,600,000	152,709
Total noncurrent liabilities	4,665,339	20,117	41,949	-	4,727,405	164,546
Total liabilities	5,293,627	142,995	102,843	-	5,539,465	478,524
Net Assets (Deficit)						
Invested in capital assets - Net of related debt	4,757,126	992,290	4,658,269	-	10,407,685	1,403,115
Restricted for:						
Revenue bond reserve	350,000	-	-	-	350,000	-
Improvement fund	-	-	237,642	-	237,642	-
Replacement fund	-	-	1,111,473	-	1,111,473	-
Unrestricted	2,196,393	1,316,688	179,187	86	3,692,354	(279,637)
Total net assets	\$ 7,303,519	\$ 2,308,978	\$ 6,186,571	\$ 86	\$ 15,799,154	\$ 1,123,478

City of Owosso, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Enterprise Funds				Governmental Activities	
	Major Funds			Nonmajor Fund	Total	Internal Service
	Water Supply System	Sewage Disposal System	Wastewater Treatment System	Transportation Fund	Business-type Activities	Fund
Operating Revenue						
Sale of water	\$ 1,772,928	\$ -	\$ -	\$ -	\$ 1,772,928	\$ -
Sewage disposal charges	-	1,509,820	-	-	1,509,820	-
Property taxes	-	-	-	40,715	40,715	-
Other charges for services	-	-	1,146,001	-	1,146,001	575,960
Total operating revenue	1,772,928	1,509,820	1,146,001	40,715	4,469,464	575,960
Operating Expenses						
Personnel services	749,971	178,911	532,395	-	1,461,277	-
Administrative and engineering services	180,000	36,000	150,385	-	366,385	91,675
Contractual and professional services	51,398	92,873	27,402	40,629	212,302	4,695
Supplies and chemicals	163,360	11,606	116,927	-	291,893	1,135
Utilities	114,292	9,271	183,833	-	307,396	-
Insurance	65,017	12,235	49,807	-	127,059	58,330
Maintenance	214,544	5,225	122,895	-	342,664	83,736
Plant charges	-	950,904	-	-	950,904	-
Depreciation	285,199	29,947	364,687	-	679,833	192,448
Total operating expenses	1,823,781	1,326,972	1,548,331	40,629	4,739,713	432,019
Operating Income (Loss)	(50,853)	182,848	(402,330)	86	(270,249)	143,941
Nonoperating Revenue (Expenses)						
Investment income	90,731	36,176	50,109	-	177,016	-
Rent income	7,668	-	-	-	7,668	-
Debt service charges	-	-	200,000	-	200,000	-
Replacement charges	-	-	100,001	-	100,001	-
Equipment replacement cost	-	-	(61,948)	-	(61,948)	-
Reimbursements and miscellaneous income	18,726	1,318	2,404	-	22,448	-
Permits	13,070	18,410	-	-	31,480	-
Miscellaneous expense	(11,992)	(32,457)	(1,557)	-	(46,006)	-
Interest expense	(214,777)	-	-	-	(214,777)	(10,737)
Total nonoperating revenue (expenses)	(96,574)	23,447	289,009	-	215,882	(10,737)
Changes in Net Assets	(147,427)	206,295	(113,321)	86	(54,367)	133,204
Net Assets - Beginning of year	7,450,946	2,102,683	6,299,892	-	15,853,521	990,274
Net Assets - End of year	<u>\$ 7,303,519</u>	<u>\$ 2,308,978</u>	<u>\$ 6,186,571</u>	<u>\$ 86</u>	<u>\$ 15,799,154</u>	<u>\$ 1,123,478</u>

City of Owosso, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Enterprise Funds					Governmental
	Major Funds			Nonmajor Fund		Activities
	Water Supply	Sewage Disposal	Wastewater	Transportation	Total	
	System	System	Treatment	Fund	Business-Type	Fleet
			System		Funds	Maintenance
Cash Flows from Operating Activities						
Receipts from customers	\$ 1,865,478	\$ 1,416,357	\$ 1,167,972	\$ -	\$ 4,449,807	\$ 575,960
Payments to employees	(749,971)	(178,911)	(532,395)	-	(1,461,277)	(91,675)
Payments to suppliers	(692,343)	(1,009,988)	(674,476)	(40,629)	(2,417,436)	(45,335)
Other receipts (payments)	<u>27,472</u>	<u>(12,729)</u>	<u>(61,101)</u>	<u>40,629</u>	<u>(5,729)</u>	<u>-</u>
Net cash (used in) provided by operating activities	450,636	214,729	(100,000)	-	565,365	438,950
Cash Flows from Capital and Financing Activities						
Purchase of capital assets	(175,858)	(55,000)	-	-	(230,858)	(569,684)
Debt service and replacement charges			300,001	-	300,001	-
Proceeds on debt issue	-	-	-	-	-	254,910
Principal and interest paid on capital debt	<u>(274,777)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(274,777)</u>	<u>(124,176)</u>
Net cash (used in) provided by capital and financing activities	(450,635)	(55,000)	300,001	-	(205,634)	(438,950)
Cash Flows from Investing Activities -						
Interest received on investments	<u>90,731</u>	<u>36,176</u>	<u>50,109</u>	<u>-</u>	<u>177,016</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	90,732	195,905	250,110	-	536,747	-
Cash and Cash Equivalents - Beginning of year	<u>2,346,688</u>	<u>943,138</u>	<u>1,286,305</u>	<u>-</u>	<u>4,576,131</u>	<u>-</u>
Cash and Cash Equivalents - End of year	<u>\$ 2,437,420</u>	<u>\$ 1,139,043</u>	<u>\$ 1,536,415</u>	<u>\$ -</u>	<u>\$ 5,112,878</u>	<u>\$ -</u>
Balance Sheet Classification of Cash and Cash Equivalents						
Cash and investments	\$ 2,081,681	\$ 1,139,043	\$ 187,300	\$ -	\$ 3,408,024	\$ -
Restricted cash and investments (Note 3)	<u>355,739</u>	<u>-</u>	<u>1,349,115</u>	<u>-</u>	<u>1,704,854</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 2,437,420</u>	<u>\$ 1,139,043</u>	<u>\$ 1,536,415</u>	<u>\$ -</u>	<u>\$ 5,112,878</u>	<u>\$ -</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities						
Operating income (loss)	\$ (50,853)	\$ 182,848	\$ (402,330)	\$ 86	\$ (270,249)	\$ 143,941
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	285,199	29,946	364,687	-	679,832	192,448
Other receipts (payments)	27,472	(12,728)	(61,100)	-	(46,356)	-
Changes in assets and liabilities:						
Receivables	(11,387)	(30)	-	(86)	(11,503)	-
Due from other funds	103,937	(93,433)	21,971	-	32,475	-
Inventories and prepaid costs	(57,862)	370	1,299	-	(56,193)	338
Accounts payable	47,706	13,840	(16,138)	-	45,408	(803)
Accrued and other liabilities	(2,094)	(814)	(6,436)	-	(9,344)	11,046
Due to other funds	<u>108,518</u>	<u>94,730</u>	<u>(1,953)</u>	<u>-</u>	<u>201,295</u>	<u>91,980</u>
Net cash (used in) provided by operating activities	\$ 450,636	\$ 214,729	\$ (100,000)	\$ -	\$ 565,365	\$ 438,950

Noncash Investing, Capital, and Financing Activities - There were no noncash transactions during the year ended June 30, 2006.

City of Owosso, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2006

	Pension and Other Employee Benefit Trust Fund	Agency Fund
	Employees' Retirement System	Tax Collection
Assets		
Cash and cash equivalents (Note 3)	\$ 24,024	\$ 20,330
Investments (Note 3):		
Money market funds	1,102,279	-
U.S. government securities	5,270,878	-
Stocks	18,118,847	-
Bonds	6,027,204	-
Receivables	-	23
Total assets	30,543,232	<u><u>\$ 20,353</u></u>
Liabilities		
Accounts payable	15,940	\$ -
Accrued and other liabilities	-	20,353
Total liabilities	15,940	<u><u>\$ 20,353</u></u>
Net Assets - Held in trust for pension benefits	<u><u>\$ 30,527,292</u></u>	

City of Owosso, Michigan

Fiduciary Funds Pension and Other Employee Benefit Trust Fund Statement of Changes in Net Assets Year Ended June 30, 2006

	Employees' Retirement System
Additions	
Investment income:	
Interest and dividends	\$ 1,486,138
Net increase in fair value of investments	<u>163,417</u>
Total investment income	1,649,555
Employee contributions	243,576
Operating transfer from General Fund	<u>32,625</u>
Total additions	1,925,756
Deductions	
Benefit payments	1,155,111
Refunds of contributions	16,209
Administrative expenses	<u>117,668</u>
Total deductions	<u>1,288,988</u>
Net Increase	636,768
Net Assets Held in Trust for Pension Benefits	
Beginning of year	<u>29,890,524</u>
End of year	<u><u>\$ 30,527,292</u></u>

City of Owosso, Michigan

Component Units Statement of Net Assets June 30, 2006

	Downtown Development Authority	Local Development Financing Authority II	Brownfield Redevelopment Authority	Total
Assets				
Cash and investments (Note 3)	\$ 5,364	\$ -	\$ -	\$ 5,364
Receivables	<u>103,490</u>	<u>102,504</u>	<u>122,057</u>	<u>328,051</u>
Total assets	108,854	102,504	122,057	333,415
Liabilities				
Accounts payable	-	171,857	117,583	289,440
Accrued and other liabilities	99,506	328	-	99,834
Noncurrent liabilities - Due within one year	<u>-</u>	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Total liabilities	<u>99,506</u>	<u>197,185</u>	<u>117,583</u>	<u>414,274</u>
Net Assets (Deficit) - Unrestricted	<u><u>\$ 9,348</u></u>	<u><u>\$ (94,681)</u></u>	<u><u>\$ 4,474</u></u>	<u><u>\$ (80,859)</u></u>

City of Owosso, Michigan

		<u>Program</u>
	<u>Expenses</u>	<u>Operating Grants and Contributions</u>
Downtown Development Authority - Community and economic development	\$ 458,356	\$ -
Local Development Financing Authority II - Interest on long-term debt	8,313	-
Brownfield Redevelopment Authority - Community and economic development	<u>15,530</u>	<u>8,804</u>
Total governmental activities	<u><u>\$ 482,199</u></u>	<u><u>\$ 8,804</u></u>

General revenues:

Property taxes

Unrestricted investment earnings

Miscellaneous

Total general revenues

Changes in Net Assets

Net Assets (Deficit) -

Beginning of year

Net Assets (Deficit) -

End of year

**Component Units
Statement of Activities
Year Ended June 30, 2006**

Net (Expense) Revenue and Changes in Net Assets			
Local			
Downtown Development Authority	Development Financing Authority II	Brownfield Redevelopment Authority	Total
\$ (458,356)	\$ -	\$ -	\$ (458,356)
-	(8,313)	-	(8,313)
-	-	(6,726)	(6,726)
(458,356)	(8,313)	(6,726)	(473,395)
450,904	81,289	13,204	545,397
91	-	-	91
420	-	-	420
451,415	81,289	13,204	545,908
(6,941)	72,976	6,478	72,513
16,289	(167,657)	(2,004)	(153,372)
<u>\$ 9,348</u>	<u>\$ (94,681)</u>	<u>\$ 4,474</u>	<u>\$ (80,859)</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Owosso, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The City of Owosso, Michigan is governed by an elected seven-member council. The accompanying basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Units - The Building Authority is governed by a board appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

Discretely Presented Component Units - The following component units are reported within the component units column in the statement of net assets. They are reported in a separate column to emphasize that they are legally separate from the City. More detailed information on each component unit is disclosed in the component units statement of net assets. Separate financial statements for the component units, other than the Downtown Development Authority, are not available.

The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council.

Complete financial statements of the Downtown Development Authority can be obtained from its administrative offices at the following address:

Administrative Office
Downtown Development Authority
301 W. Main Street
Owosso, MI 48867

Note I - Summary of Significant Accounting Policies (Continued)

The Local Development Financing Authority II was created to prevent conditions of unemployment, promote economic growth, and authorize the acquisition and disposal of interests in real and personal property. The Authority's governing body consists of seven individuals, who are selected by the City Council, School Board, Regional Education School District, and County Commission.

The Brownfield Redevelopment Authority was created to facilitate the implementation of plans relating to the identification and treatment of environmentally distressed areas to promote revitalization within the Brownfield Redevelopment Zone. The Brownfield governing body, which consists of seven individuals, is selected by the City Council, and includes all members of the LDFA board. In addition, the Brownfield budget is subject to approval by the City Council.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes that are both measurable and available for use to finance operations are recorded as revenue when earned. Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are billed on July 1 of the following year.

Noncurrent receivables, such as special assessments, are recorded at full value, and deferred revenue is recorded for the portion not available for use to finance operations as of year end. Interest income on special assessments receivable is not accrued until its due date.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenues from general property taxes, state-shared revenues, and other sources.

Note I - Summary of Significant Accounting Policies (Continued)

The Major Street Fund is used to account for the proceeds of revenues or financing activities earmarked for major street construction and improvements which require separate accounting because of legal or regulatory provisions.

The Subdivision Fund is used to account for the development of the subdivision.

The City reports the following major Enterprise Funds:

The Water Supply System and Sewage Disposal System Funds are used to account for the provision of water and sewer services to the residents of the City and some residents of the surrounding community. All activities necessary to provide such services are accounted for in these funds, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

The Wastewater Treatment System Fund is used to record the transactions relative to the construction, operation, and maintenance of a wastewater treatment plant. It provides treatment facilities for Owosso and Caledonia Townships, the City of Corunna, as well as for the City itself.

Additionally, the City reports the following fund types:

The Internal Service Fund accounts for major machinery and equipment purchases and maintenance services provided to other departments of the City on a cost reimbursement basis.

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, and/or other funds. These include the Employee Retirement System and the Tax Collections Agency Fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The Employees' Retirement System is governed by a seven-member pension board that includes three individuals chosen by the City Council. The System is reported within the City's basic financial statements even though its resources cannot be used to fund the City's operations because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Funds.

Note 1 - Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 1 of the following year, at which time penalties and interest are assessed.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City's 2005 ad valorem tax is levied and collectible on July 1, 2005 and is recognized as revenue in the year ended June 30, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the City totaled \$255.0 million (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which ad valorem taxes levied consisted of 13.1091 mills for operating purposes, 0.6461 mills for debt service, and 0.1658 mills for the operations of the Shiawassee Area Transportation Authority (SATA). This resulted in \$3.3 million for operating, \$0.2 million for debt service, and approximately \$42,000 for SATA. These amounts are recognized in the respective General, Debt Service, and Enterprise Fund financial statements as tax revenue.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories, Land Held for Sale, and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements. Land held for sale includes the costs incurred by the City to develop the land for sale.

Restricted Assets - The revenue bonds and interlocal agreements of the Enterprise Funds require amounts to be set aside for future improvements and replacements and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (road network), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	50 years
Land improvements	40 to 50 years
Buildings	40 to 50 years
Vehicles	3 to 12 years
Office furnishings	5 to 7 years
Machinery and equipment	3 to 12 years

GASB Statement No. 34 required the City to report and depreciate new infrastructure assets in a previous year. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, sidewalks, etc. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for the City for the fiscal year ending in 2007. The City has elected to implement the infrastructure provisions of GASB Statement No. 34 in the previous years for the road network, and implemented the retroactive infrastructure provisions for the sidewalk system in the current fiscal year. As of July 1, 2005, capital asset additions for sidewalks amounted to \$5,414,078 with related accumulated depreciation of \$1,678,364 (see Note 5). The impact of recording these amounts as of the beginning of the year is an adjustment to beginning net assets for governmental activities. The increase to beginning net assets is \$3,735,714, resulting in restated beginning net assets of \$39,185,391 at July 1, 2005.

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when they have matured or come due for payment, generally when an individual's employment has terminated as of year end.

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds, except that transfers in and out are budgeted as revenue and expenditures. All annual appropriations lapse at fiscal year end. Charter provisions require department head submissions by the first Monday in February, submission of the budget to Council by the first meeting in April, and adoption of the budget by the fourth Monday in May.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances.

Fund Deficits - The Subdivision Fund had a net deficit at the fund basis at year end of \$544,988. The Subdivision Fund will collect the proceeds on the sale of land to eliminate this deficit.

The Fleet Maintenance Fund had a deficit in unrestricted net assets of \$279,637. The Fleet Maintenance Fund will eliminate this deficit through expected payback over four years from equipment rental fees due to significant major equipment purchases.

The Local Development Financing Authority II had a net deficit at the government-wide basis at year end of \$94,681; on the modified accrual basis of accounting, there was fund deficit of \$35,431. The Local Development Financing Authority II will capture property taxes in the future to eliminate this deficit.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Pension Trust Fund is authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated five banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investments as allowed under State statutory authority as listed above.

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had bank deposits (certificates of deposit, checking, and savings accounts) of \$5,724,571, of which \$422,814 was covered by federal depository insurance and \$5,301,757 was uninsured and uncollateralized. The component units' deposits had a bank balance of \$5,364, of which all was covered by federal depository insurance. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

Investment Type	Carrying Value	How Held
U.S. government or agency bond or note (pension)	\$ 5,270,878	Counterparty
Corporate bonds (pension)	6,027,204	Counterparty's trust dept.
Corporate stocks (pension)	18,118,847	Counterparty's trust dept.

City of Owosso, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity for non-pension funds. At year end, the average maturities of investments are as follows:

Type of Investment	Fair Value	Less than One Year	1-5 Years	6-10 Years	More than 10 Years
U.S. government or agency bond or note	\$ 5,270,878	\$ 1,052,615	\$ 2,302,229	\$ 1,916,034	\$ -
Corporate bonds	6,027,204	789,805	2,826,021	833,867	1,577,511
Money market funds (pension)	1,102,279	1,102,279	-	-	-
Money market funds	4,041,876	4,041,876	-	-	-

Credit Risk

The City's investment policy limits its investment choices to those specified by state statute. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Corporate bonds	\$ 1,677,168	AAA	S&P
Corporate bonds	35,905	AA+	S&P
Corporate bonds	337,619	AA	S&P
Corporate bonds	979,328	AA-	S&P
Corporate bonds	1,238,453	A+	S&P
Corporate bonds	1,213,790	A	S&P
Corporate bonds	124,292	A-	S&P
Corporate bonds	58,690	BBB+	S&P
Corporate bonds	32,366	BBB	S&P
Corporate bonds	287,449	AAA	Moody's
Corporate bonds	42,142	AA2	Moody's
U.S. government agency bonds or notes	3,524,334	AAA	S&P
U.S. government agency bonds or notes	833,354	AAA/A-1+	S&P
U.S. government agency bonds or notes	913,190	AA-	S&P
Money market funds (pension)	1,102,279	Not Rated	-
Money market funds	4,041,876	Not Rated	-

City of Owosso, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor and Internal Service Funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities				Business-type Activities			
	General Fund	Major Street Fund	Subdivision Fund	Nonmajor and Other Funds	Water Supply System	Sewage Disposal System	Shiawassee Area Transportaion Authority	Total
Receivables:								
Taxes	\$ 4,983	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,983
Intergovernmental	669,504	220,311	-	139,578	73,246	-	86	1,102,725
Special assessments	-	-	-	401,420	-	-	-	401,420
Customers	-	-	-	-	337,555	159	-	337,714
Interest and other	133,274	-	-	18,376	-	-	-	151,650
Loans	-	-	64,888	211,272	-	-	-	276,160
Total receivables	<u>\$ 807,761</u>	<u>\$ 220,311</u>	<u>\$ 64,888</u>	<u>\$ 770,646</u>	<u>\$ 410,801</u>	<u>\$ 159</u>	<u>\$ 86</u>	<u>\$ 2,274,652</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned	Total
Special assessments	\$ 203,047	\$ 198,373	\$ 401,420
Revolving loans	23,710	-	23,710
State-shared revenues	401,259	-	401,259
Notes receivable	64,888	-	64,888
Total	<u>\$ 692,904</u>	<u>\$ 198,373</u>	<u>\$ 891,277</u>

City of Owosso, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2005 (as restated)	Additions	Disposals and Adjustments	Balance June 30, 2006
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 4,373,865	\$ -	\$ 95,533	\$ 4,278,332
Capital assets being depreciated:				
Roads and sidewalks	40,483,749	469,934	266,218	40,687,465
Land improvements	1,302,460	-	-	1,302,460
Buildings	2,773,798	16,394	-	2,790,192
Vehicles	2,812,373	554,679	146,844	3,220,208
Office furnishings	1,346,819	75,860	18,550	1,404,129
Machinery and equipment	1,938,269	85,758	-	2,024,027
Subtotal	50,657,468	1,202,625	431,612	51,428,481
Accumulated depreciation:				
Roads and sidewalks	12,604,134	756,977	-	13,361,111
Land improvements	1,094,474	32,611	-	1,127,085
Buildings	1,608,693	74,508	-	1,683,201
Vehicles	1,534,984	220,784	140,832	1,614,936
Office furnishings	990,655	89,981	14,187	1,066,449
Machinery and equipment	1,147,336	129,179	-	1,276,515
Subtotal	18,980,276	1,304,040	155,019	20,129,297
Net capital assets being depreciated	31,677,192	(101,415)	276,593	31,299,184
Net capital assets	\$ 36,051,057	\$ (101,415)	\$ 372,126	\$ 35,577,516

City of Owosso, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
Capital assets not being depreciated -				
Land	\$ 396,314	\$ 55,000	\$ -	\$ 451,314
Capital assets being depreciated:				
Buildings	13,239,935	-	-	13,239,935
Improvements other than buildings	7,953,255	170,156	-	8,123,411
Vehicles	63,657	-	-	63,657
Machinery and equipment	10,340,508	5,700	-	10,346,208
Subtotal	31,597,355	175,856	-	31,773,211
Accumulated depreciation:				
Buildings	4,547,989	277,516	-	4,825,505
Improvements other than buildings	3,386,681	154,368	-	3,541,049
Vehicles	50,409	3,917	-	54,326
Machinery and equipment	8,476,929	244,031	-	8,720,960
Subtotal	16,462,008	679,832	-	17,141,840
Net capital assets being depreciated	15,135,347	(503,976)	-	14,631,371
Net capital assets	\$ 15,531,661	\$ (448,976)	\$ -	\$ 15,082,685

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 120,443
Public safety	192,810
Public works	978,283
Economic development	2,022
Recreation and culture	10,482

Total governmental activities \$ 1,304,040

Business-type activities:

Water	\$ 285,199
Sewer	29,946
Wastewater	364,687

Total business-type activities \$ 679,832

City of Owosso, Michigan

Notes to Financial Statements June 30, 2006

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due To/From Other Funds		
General Fund	Subdivision	\$ 784,402
	Major Street	47,215
	Other governmental funds	36,282
	Wastewater Treatment	219
	Fleet Maintenance	<u>248,369</u>
Total General Fund		1,116,487
Other governmental funds	General Fund	903,733
	Major Street	215
	Other Governmental Funds	<u>103,227</u>
Total other governmental funds		1,007,175
Water Fund	General Fund	51,521
	Major Street	10,782
	Other governmental funds	9,389
	Wastewater Treatment	<u>1,615</u>
Total Water Fund		73,307
Sewer Fund	General Fund	5,197
	Major Street	6,730
	Water Fund	293,589
	Other governmental funds	<u>14,965</u>
Total Sewer Fund		320,481
Wastewater Fund	Sewer Fund	<u>94,730</u>
Total due to/from other funds		<u>\$ 2,612,180</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur and (2) payments between funds are made.

City of Owosso, Michigan

Notes to Financial Statements June 30, 2006

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

	Transfers Out		
	General Fund	Major Street	Total
Transfers in:			
Major Street Fund	\$ 33,726	\$ -	\$ 33,726
Other governmental funds	<u>199,062</u>	<u>182,900</u>	<u>381,962</u>
Total transfers by fund	<u>\$ 232,788</u>	<u>\$ 182,900</u>	<u>\$ 415,688</u>

Transfers are used to (1) move revenues from the fund that statute requires to collect them to the fund that the budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in others in accordance with budgetary authorizations.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds:					
1992 General Obligation Limited Tax Bonds	\$ 245,000	\$ -	\$ 125,000	\$ 120,000	\$ 120,000
1991 General Obligation Limited Tax Bonds	85,000	-	85,000	-	-
1994 Unlimited Tax General Obligation Bonds	350,000	-	60,000	290,000	65,000
2001 General Obligation Limited Tax Bonds	650,000	-	95,000	555,000	95,000
Installment purchase agreements:					
HVAC	490,000	-	30,000	460,000	35,000
Equipment	35,000	-	35,000	-	-
Vactor equipment	-	254,910	56,023	198,887	46,178
Sweeper	22,416	-	22,416	-	-
Special assessment bonds:					
1987 Special Assessment Limited Tax Bonds	15,000	-	10,000	5,000	5,000
1998 Special Assessment Limited Tax Bonds	150,000	-	60,000	90,000	60,000
1999 Special Assessment Limited Tax Bonds	95,000	-	25,000	70,000	25,000
2001 Special Assessment Limited Tax Bonds	155,000	-	30,000	125,000	30,000
Other long-term obligations:					
Self-insurance liabilities (Note 9)	172,854	-	53,210	119,644	75,000
Compensated absences	518,596	51,278	-	569,874	158,047
Total governmental activities	<u>\$ 2,983,866</u>	<u>\$ 306,188</u>	<u>\$ 686,649</u>	<u>\$ 2,603,405</u>	<u>\$ 714,225</u>
Business-type Activities					
Revenue bonds -					
2002 Water Supply System	\$ 4,735,000	\$ -	\$ 60,000	\$ 4,675,000	\$ 75,000
Other long-term obligations -					
Compensated absences	141,920	30,691	-	172,611	45,206
Total business-type activities	<u>\$ 4,876,920</u>	<u>\$ 30,691</u>	<u>\$ 60,000</u>	<u>\$ 4,847,611</u>	<u>\$ 120,206</u>
Component Units					
Installment loan	\$ 50,000	\$ -	\$ 25,000	\$ 25,000	\$ 25,000
General obligation bonds	80,000	-	80,000	-	-
Total component units	<u>\$ 130,000</u>	<u>\$ -</u>	<u>\$ 105,000</u>	<u>\$ 25,000</u>	<u>\$ 25,000</u>

City of Owosso, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 481,178	\$ 85,641	\$ 566,820	\$ 75,000	\$ 211,094	\$ 286,094	\$ 25,000	\$ 656	\$ 25,656
2008	348,464	64,768	413,232	95,000	208,484	303,484	-	-	-
2009	330,863	48,318	379,181	115,000	205,059	320,059	-	-	-
2010	313,381	32,357	345,738	135,000	200,689	335,689	-	-	-
2011	175,000	19,008	194,008	160,000	195,059	355,059	-	-	-
2012-2016	265,000	36,031	301,031	1,155,000	702,021	1,857,021	-	-	-
2017-2021	-	-	-	1,910,000	595,366	2,505,366	-	-	-
2022-2023	-	-	-	1,030,000	115,375	1,145,375	-	-	-
Total	<u>\$ 1,913,887</u>	<u>\$ 286,123</u>	<u>\$ 2,200,009</u>	<u>\$ 4,675,000</u>	<u>\$ 2,433,147</u>	<u>\$ 7,108,147</u>	<u>\$ 25,000</u>	<u>\$ 656</u>	<u>\$ 25,656</u>

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Business-type Activities
Unspent bond proceeds and related interest	\$ 5,739
Revenue bond restrictions:	
Revenue bond reserve	350,000
Improvement and replacement fund	1,349,115
Total restricted assets	<u>\$ 1,704,854</u>

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for employee medical benefits and participates in the Michigan Municipal Risk Management Authority (risk pool) for claims relating to general and auto liability, auto physical damage and property loss claims, and the Michigan Municipal League for Workers' Compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 - Risk Management (Continued)

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

At June 30, 2006, the City has \$198,934 on deposit with the Authority to pay claims. Upon termination of the program, any amounts remaining on deposit after the Authority has settled all claims incurred prior to termination will be returned to the City. The City estimates the liability for claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	2006	2005
Unpaid Claims - Beginning of year	\$ 172,854	\$ 167,626
Incurred claims (including claims incurred but not reported)	21,455	9,428
Claim payments	(74,665)	(4,200)
Unpaid Claims - End of year	<u>\$ 119,644</u>	<u>\$ 172,854</u>

Note 10 - Defined Benefit Pension Plans

City of Owosso Employees' Retirement System

Plan Description - The City of Owosso Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Owosso, Michigan; this plan covers substantially all the employees of the City, except for certain retired union employees of the American Federation of State, County, and Municipal Employees and the Police Command Bargaining Unit, both of which participate in the Michigan Municipal Employees' Retirement System. During the current year, the plan was closed to all new employees under the AFSCME agreement. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2005, the date of the most recent actuarial valuation, membership consisted of 77 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 98 current active employees. The plan does not issue a separate financial statement.

Funding Policy - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 6.0 percent, excluding the police union to which the City contributes up to 4.0 percent with the members being responsible for any additional contribution requirements. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings and contributions from the City.

Annual Pension Costs - For the year ended June 30, 2006, the City made no contributions, in accordance with actuarial requirements. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method, except the general union which uses the aggregate cost method. Significant actuarial assumptions used include: (i) a 7.5 percent investment rate of return; (ii) projected salary increases of 4.5 percent to 12.8 percent per year depending on age, attributable to seniority/merit; and (iii) 1.4 percent per year cost of living adjustments for the first 10 years of retirement. Both (i) and (ii) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 10 years.

Note 10 - Defined Benefit Pension Plans (Continued)

Reserves - As of June 30, 2006, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 4,004,826
Reserve for retired benefit payments	\$ 13,595,320

Three-year trend information as of June 30 follows:

	Fiscal Year Ended June 30		
	2004	2005	2006
Employees' Retirement System:			
Annual pension costs (APC)	\$ -	\$ 2,671	\$ -
Percentage of APC contributed	N/A	100%	N/A
Net pension obligation	-	-	-

Michigan Municipal Employees' Retirement System

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers certain retired union members of the American Federation of State, County, and Municipal Employees (AFSCME) and certain union members of the Police Command Bargaining Unit employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That financial report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiations with the City's competitive bargaining units and requires 6.40 percent and 10.56 percent contributions from the employees of AFSCME and Police Command Bargaining Unit employees, respectively.

Annual Pension Costs - For the year ended June 30, 2006, the City was not required to make an annual contribution to the plan. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry actual age cost method. Significant actuarial assumptions used include: (i) an 8.0 percent investment rate of return and (ii) projected salary increases of 4.5 percent to 12.9 percent per year depending on age, attributable to seniority/merit. Both (i) and (ii) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll. The remaining amortization period is 10 years.

Note 10 - Defined Benefit Pension Plans (Continued)

Three-year trend information as of June 30 follows:

	Fiscal Year Ended June 30		
	2004	2005	2006
Annual pension costs (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	N/A	N/A	N/A
Net pension obligation	-	-	-

	Actuarial Valuation as of December 31		
	2003	2004	2005
Actuarial value of assets	\$ 2,968,819	\$ 3,409,478	\$ 3,457,494
Actuarial accrued liability (AAL)			
(entry age)	\$ 2,780,200	\$ 3,267,995	\$ 3,435,995
Unfunded AAL (UAAL)	\$ (188,619)	\$ (141,483)	\$ (21,499)
Funded ratio	107%	104%	101%
Covered payroll	\$ 246,466	\$ 311,509	\$ 347,795
UAAL as a percentage of covered payroll	0%	0%	0%

Note 11 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

Shortfall at July 1, 2005	\$ (270,538)
Current year building permit revenue	112,266
Related expenses - Direct costs	<u>119,442</u>
Cumulative shortfall at June 30, 2006	<u>\$ (277,714)</u>

Note 12 - Contingent Liabilities

The City has been served in civil and administrative actions brought against it seeking damages from matters within the geographical limits of and/or activities of the City of Owosso, Michigan. In the opinion of the administration and its legal counsel, the settlement of these actions should have no material effect upon the financial position of the City.

Required Supplemental Information

City of Owosso, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 3,533,784	\$ 3,533,784	\$ 3,533,784	
Resources (Inflows)				
Property taxes	3,323,450	3,342,900	3,262,910	(79,990)
Local sources	888,550	1,040,400	1,130,705	90,305
State and federal sources	2,418,000	1,803,175	1,859,606	56,431
Appropriations of fund balance	210,350	294,525	-	(294,525)
Total resources (inflows)	10,374,134	10,014,784	9,787,005	(227,779)
Charges to Appropriations (Outflows)				
General government	1,327,350	1,395,750	1,425,976	(30,226)
Public safety	3,242,775	3,314,050	3,248,099	65,951
Community development	263,600	268,375	254,463	13,912
Public services	879,900	929,750	819,495	110,255
Recreation	889,875	269,925	245,861	24,064
Transfers	236,850	303,150	232,788	70,362
Total charges to appropriations (outflows)	6,840,350	6,481,000	6,226,682	254,318
Fund Balance - End of year	\$ 3,533,784	\$ 3,533,784	\$ 3,560,323	\$ 26,539

City of Owosso, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund Major Street Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 91,753	\$ 91,753	\$ 91,753	
Resources (Inflows)				
Appropriations of fund balance	90,250	90,250	-	(90,250)
Major	<u>921,050</u>	<u>1,062,925</u>	<u>1,004,960</u>	<u>(57,965)</u>
Total resources (inflows)	1,103,053	1,244,928	1,096,713	(148,215)
Charges to Appropriations (Outflows) - Major	<u>1,011,300</u>	<u>1,153,175</u>	<u>1,095,209</u>	<u>57,966</u>
Fund Balance - End of year	<u>\$ 91,753</u>	<u>\$ 91,753</u>	<u>\$ 1,504</u>	<u>\$ (90,249)</u>

City of Owosso, Michigan

Required Supplemental Information Pension System Schedules of Funding Progress and Employer Contributions June 30, 2006

The schedule of funding progress is as follows:

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/99	\$ 26,025,330	\$ 17,093,725	\$ (8,931,605)	152.3	\$ 2,612,348	341.9
12/31/00	31,509,050	22,593,749	(8,915,301)	139.5	3,788,920	235.3
12/31/01	32,532,073	23,409,003	(9,123,070)	139.0	3,809,203	239.5
12/31/02	31,681,327	24,793,616	(6,887,711)	127.8	3,840,501	179.3
12/31/03	32,112,528	25,761,222	(6,351,306)	124.7	3,993,163	159.1
12/31/04	32,090,371	25,762,080	(6,328,291)	124.6	3,996,822	158.3
12/31/05	32,277,585	27,939,504	(4,338,081)	115.5	4,162,066	104.2

The schedule of employer contributions is as follows:

Employees' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
6/30/00	12/31/98	\$ -	N/A
6/30/01	12/31/99	-	N/A
6/30/02	12/31/00	-	N/A
6/30/03	12/31/01	-	N/A
6/30/04	12/31/02	-	N/A
6/30/05	12/31/03	2,671	100
6/30/06	12/31/04	-	N/A

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2005, the latest actuarial valuation, follows:

Actuarial cost method	Entry age, except General Union, which uses aggregate
Amortization method	Level percent open
Remaining amortization period	10 years
Asset valuation method	Open four-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	4.5% - 12.8%
*Includes inflation at	4.5%
Cost of living adjustments	1.4% of the base pension for the first 10 years of retirement

Other Supplemental Information

City of Owosso, Michigan

Other Supplemental Information Budgetary Comparison Schedule Local Street Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 28,876	\$ 28,876	\$ 15,925	\$ (12,951)
Resources (Inflows) - Local	<u>776,100</u>	<u>757,000</u>	<u>719,012</u>	<u>(37,988)</u>
Amounts available for appropriation	804,976	785,876	734,937	(50,939)
Charges to Appropriations (Outflows)				
Appropriations of fund balance	28,450	28,450	-	28,450
Local	<u>776,100</u>	<u>757,000</u>	<u>734,510</u>	<u>22,490</u>
Total charges to appropriations (outflows)	<u>804,550</u>	<u>785,450</u>	<u>734,510</u>	<u>50,940</u>
Fund Balance - End of year	<u><u>\$ 426</u></u>	<u><u>\$ 426</u></u>	<u><u>\$ 427</u></u>	<u><u>\$ 1</u></u>

City of Owosso, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006

	Nonmajor Special Revenue Funds					Nonmajor Debt Service Funds						
	Local Street	Revolving Loan	Historical	Public Improvement	Drug Enforcement	2006 Special Assessment Limited Tax Bonds	2005 Special Assessment Limited Tax Bonds	2004 Special Assessment Limited Tax Bonds	2003 Special Assessment Limited Tax Bonds	2001 Special Assessment Limited Tax Bonds	2000 Special Assessment Limited Tax Bonds	1999 Special Assessment Limited Tax Bonds
Assets												
Cash and investments	\$ -	\$ 118,392	\$ 70,768	\$ 844,628	\$ -	\$ -	\$ 61,263	\$ 32,462	\$ 6,150	\$ 31,797	\$ 35,498	\$ 35,884
Special assessments receivable	-	-	-	-	-	198,373	49,580	57,683	11,269	15,461	27,866	18,781
Accounts receivable	-	18,376	-	-	-	-	-	-	-	-	-	-
Loans receivable	-	211,272	-	-	-	-	-	-	-	-	-	-
Prepaid costs and other assets	-	-	-	-	-	-	-	-	-	-	-	-
Due from other funds	215	691,359	-	-	-	-	-	-	-	-	-	-
Due from other governmental units	44,469	30,420	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 44,684	\$ 1,069,819	\$ 70,768	\$ 844,628	\$ -	\$ 198,373	\$ 110,843	\$ 90,145	\$ 17,419	\$ 47,258	\$ 63,364	\$ 54,665
Liabilities and Fund Balances												
Liabilities												
Accounts payable	\$ 5,996	\$ 103,304	\$ 514	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued and other liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	38,261	-	22,375	-	-	-	61,263	32,462	6,150	-	-	-
Deferred revenue	-	23,710	-	-	-	198,373	49,580	57,683	11,269	15,461	27,866	18,781
Total liabilities	44,257	127,014	22,889	-	-	198,373	110,843	90,145	17,419	15,461	27,866	18,781
Fund Balances												
Reserved	-	187,562	-	-	-	-	-	-	-	-	-	-
Unreserved	427	755,243	47,879	844,628	-	-	-	-	-	31,797	35,498	35,884
Total fund balances	427	942,805	47,879	844,628	-	-	-	-	-	31,797	35,498	35,884
Total liabilities and fund balances	\$ 44,684	\$ 1,069,819	\$ 70,768	\$ 844,628	\$ -	\$ 198,373	\$ 110,843	\$ 90,145	\$ 17,419	\$ 47,258	\$ 63,364	\$ 54,665

(Continued on next page)

City of Owosso, Michigan

Other Supplemental Information Combining Balance Sheet (Continued) Nonmajor Governmental Funds June 30, 2006

	Nonmajor Debt Service Funds										
	1998 Special Assessment Limited Tax Bonds	1997 Special Assessment Limited Tax Bonds	1996 Special Assessment Limited Tax Bonds	1995 Special Assessment Limited Tax Bonds	1994 Special Assessment Limited Tax Bonds	1994 General Obligation Bonds	1990 Building Authority Bonds	1991 Street Bonds	1992 Building Authority Bonds	1987 Special Assessment Limited Tax Bonds	Total Nonmajor Governmental Funds
Assets											
Cash and investments	\$ 20,454	\$ 50,597	\$ 17,111	\$ -	\$ 2,459	\$ -	\$ -	\$ -	\$ 12,341	\$ 12,620	\$ 1,352,424
Special assessments receivable	7,016	8,245	-	-	6,000	-	-	-	-	1,146	401,420
Accounts receivable	-	-	-	-	-	-	-	-	-	-	18,376
Loans receivable	-	-	-	-	-	-	-	-	-	-	211,272
Prepaid costs and other assets	-	-	-	-	-	-	-	-	123,960	-	123,960
Due from other funds	-	-	-	26,819	-	-	112,929	-	175,853	-	1,007,175
Due from other governmental units	-	-	-	-	-	-	-	-	64,689	-	139,578
Total assets	\$ 27,470	\$ 58,842	\$ 17,111	\$ 26,819	\$ 8,459	\$ -	\$ 112,929	\$ -	\$ 376,843	\$ 13,766	\$ 3,254,205
Liabilities and Fund Balances											
Liabilities											
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 109,814
Accrued and other liabilities	1,439	-	-	-	-	-	-	-	-	-	1,439
Due to other funds	-	-	-	-	1,215	-	-	-	-	2,137	163,863
Deferred revenue	7,016	8,245	-	-	6,000	-	-	-	-	1,146	425,130
Total liabilities	8,455	8,245	-	-	7,215	-	-	-	-	3,283	700,246
Fund Balances											
Reserved	-	-	-	-	-	-	-	-	123,960	-	311,522
Unreserved	19,015	50,597	17,111	26,819	1,244	-	112,929	-	252,883	10,483	2,242,437
Total fund balances	19,015	50,597	17,111	26,819	1,244	-	112,929	-	376,843	10,483	2,553,959
Total liabilities and fund balances	\$ 27,470	\$ 58,842	\$ 17,111	\$ 26,819	\$ 8,459	\$ -	\$ 112,929	\$ -	\$ 376,843	\$ 13,766	\$ 3,254,205

City of Owosso, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2006

	Nonmajor Special Revenue Funds					Nonmajor Debt Service Funds						
	Local Street	Revolving Loan	Historical	Public Improvement	Drug Enforcement	2006 Special Assessment Limited Tax Bonds	2005 Special Assessment Limited Tax Bonds	2004 Special Assessment Limited Tax Bonds	2003 Special Assessment Limited Tax Bonds	2001 Special Assessment Limited Tax Bonds	2000 Special Assessment Limited Tax Bonds	1999 Special Assessment Limited Tax Bonds
Revenue												
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State and local sources	281,631	21,900	27,417	-	-	-	-	-	-	-	-	-
Interest income	233	4,263	1,402	-	-	-	-	-	-	2,286	1,225	1,285
Special assessments	76,236	-	-	-	-	-	-	-	-	6,922	9,857	11,203
Other	-	67,033	16,142	-	-	-	-	-	-	-	1,989	1,805
Total revenue	358,100	93,196	44,961	-	-	-	-	-	-	9,208	13,071	14,293
Expenditures												
Current:												
Other	-	-	918	-	-	-	-	-	-	-	-	-
Construction of streets	222,498	-	-	-	-	-	-	-	-	-	-	-
Maintenance	485,059	-	14,166	-	-	-	-	-	-	-	-	-
General and administrative	26,953	24,600	26,159	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	17,215	19,392	29,451
Total expenditures	734,510	24,600	41,243	-	-	-	-	-	-	17,215	19,392	29,451
Excess of Revenue Over (Under) Expenditures	(376,410)	68,596	3,718	-	-	-	-	-	-	(8,007)	(6,321)	(15,158)
Other Financing Sources (Uses)												
Transfer of excess funds to other governmental units	-	-	-	-	(95,389)	-	-	-	-	-	-	-
Transfers	360,912	-	21,050	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	360,912	-	21,050	-	(95,389)	-	-	-	-	-	-	-
Net Change in Fund Balances	(15,498)	68,596	24,768	-	(95,389)	-	-	-	-	(8,007)	(6,321)	(15,158)
Fund Balances - Beginning of year	15,925	874,209	23,111	844,628	95,389	-	-	-	-	39,804	41,819	51,042
Fund Balances - End of year	<u>\$ 427</u>	<u>\$ 942,805</u>	<u>\$ 47,879</u>	<u>\$ 844,628</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,797</u>	<u>\$ 35,498</u>	<u>\$ 35,884</u>

(Continued on next page)

City of Owosso, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2006

Nonmajor Debt Service Funds

	1998 Special Assessment Limited Tax Bonds	1997 Special Assessment Limited Tax Bonds	1996 Special Assessment Limited Tax Bonds	1995 Special Assessment Limited Tax Bonds	1994 Special Assessment Limited Tax Bonds	1994 General Obligation Bonds	1990 Building Authority Bonds	1991 Street Bonds	1992 Building Authority Bonds	1987 Special Assessment Limited Tax Bonds	Total Nonmajor Governmental Funds
Revenue											
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 79,170	\$ -	\$ 87,975	\$ -	\$ -	\$ 167,145
State and local sources	-	-	-	-	-	-	120,599	-	139,258	-	590,805
Interest income	954	1,604	593	-	-	-	-	-	50	748	14,643
Special assessments	5,306	8,914	1,385	-	-	-	-	-	-	1,146	120,969
Other	686	1,379	114	-	-	-	-	-	-	180	89,328
Total revenue	6,946	11,897	2,092	-	-	79,170	120,599	87,975	139,308	2,074	982,890
Expenditures											
Current:											
Other	-	-	-	-	-	-	-	-	-	-	918
Construction of streets	-	-	-	-	-	-	-	-	-	-	222,498
Maintenance	-	-	-	-	-	-	-	-	-	-	499,225
General and administrative	-	-	-	-	-	-	-	-	-	-	77,712
Debt service	39,164	20,570	6,752	-	-	79,170	120,599	87,975	138,996	10,800	570,084
Total expenditures	39,164	20,570	6,752	-	-	79,170	120,599	87,975	138,996	10,800	1,370,437
Excess of Revenue Over (Under) Expenditures	(32,218)	(8,673)	(4,660)	-	-	-	-	-	312	(8,726)	(387,547)
Other Financing Sources (Uses)											
Transfer of excess funds to other governmental units	-	-	-	-	-	-	-	-	-	-	(95,389)
Transfers	-	-	-	-	-	-	-	-	-	-	381,962
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-	-	286,573
Net Change in Fund Balances	(32,218)	(8,673)	(4,660)	-	-	-	-	-	312	(8,726)	(100,974)
Fund Balances - Beginning of year	51,233	59,270	21,771	26,819	1,244	-	112,929	-	376,531	19,209	2,654,933
Fund Balances - End of year	\$ 19,015	\$ 50,597	\$ 17,111	\$ 26,819	\$ 1,244	\$ -	\$ 112,929	\$ -	\$ 376,843	\$ 10,483	\$ 2,553,959

City of Owosso, Michigan

Report to the City Council

June 30, 2006

plante

moran

To the Honorable Mayor and
Members of the City Council
City of Owosso, Michigan

We recently completed our audit of the basic financial statements of the City of Owosso, Michigan for the year ended June 30, 2006. The following items are presented for your consideration on attachments as outlined below.

<u>Title</u>	<u>Page</u>
Informational Item	
Retiree Health Care Benefits	2-3
Legislative Matters	
Revenue Sharing	4-5
Update on Business Tax Reform	5
Cable Franchise Fees	5
Task Force Report Issued on Local Government Finance	5-6
Special Road Project Monies	6
Considering a Transit Tax?	6
911 Surcharges to Sunset Extended	6
Government Wins Headlee Challenge	7

We appreciate the opportunity to be of service to the City of Owosso. The cooperation extended to us by your staff throughout the audit was greatly appreciated. We look forward to continuing our relationship with the City. Should you wish to discuss any of the items included in this letter, we would be happy to do so.

Plante & Moran, PLLC

November 21, 2006

Informational Item

City of Owosso, Michigan

Informational Item

Retiree Health Care Benefits

The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements rather than the individual fund level. Therefore, the manner in which retiree health care benefits are budgeted will not change, unless you begin funding the benefits (however, as discussed below, there are incentives to do so).

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is being phased in over a three-year period, similar to GASB 34. It is effective for fiscal years beginning after December 15, 2006, 2007, or 2008 depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million, respectively. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months' lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution; thus, funding the contribution will actually reduce your long-run cost.

City of Owosso, Michigan Information Item

Retiree Health Care Benefits (Continued)

We understand the City is currently offering various employees the option of converting their accumulated sick leave time for health care insurance for a set period of time after retirement. Due to various factors such as the probability of employees accepting this option in lieu of the cash payout of accumulated sick leave payout along with the forgone compensation under the deferred benefit plan, the financial impact to the City is not known at this time.

Legislative Matters

City of Owosso, Michigan

Legislative Matters

Revenue Sharing

This year's budget discussion offered hope of an increase in revenue sharing from the last several years. Revenue sharing was identified as a priority by the Legislature during its initial budget discussions in the winter and several proposals existed which included a blanket increase in revenue sharing of several percent and one which tied the increase in revenue sharing to local governments who demonstrated that they had engaged in service sharing, service consolidation, etc. In the end, the summer budget compromises that occurred in July saw no increases in revenue sharing over the last several years.

However, an additional appropriation was made for special census payments in 2006. The revenue sharing act does provide that a city, village, or township with a minimum 10 percent population growth confirmed by a special census, and levying at least one mill, is eligible for an annual payment for a portion or all of the growth in population. Despite this, even if the local government meets these criteria, funds for the special census payment must be appropriated by the Legislature. Therefore, there is risk that a community with a 10 percent or greater population increase since the 2000 census will incur the time and expense of a special census and not have monies appropriated by the Legislature.

With the appropriation reductions to revenue sharing since 2001 (including approximately \$600 million in fiscal year 2006/2007 over amounts calculated by the statutory formula), a number of townships are no longer receiving any statutory revenue sharing. To accomplish the appropriation reductions mandated in the State's budget, the State is required to reduce the statutory portion of a local unit's revenue sharing (remember that the constitutional portion cannot be adjusted). Many townships no longer have any statutory revenue sharing remaining as a result. For those communities, because sales tax collections have increased, their revenue sharing is actually increasing because they are now only receiving constitutional revenue sharing. Essentially, the remaining amount of statutory revenue sharing in the State's budget (approximately \$400 million) is supporting cities, villages, and larger urban townships.

The statutory formula sunsets in 2007, so these remaining statutory revenue-sharing dollars will receive considerable attention next year. Next year, the State will also need to begin dealing with counties again as it relates to statutory revenue sharing. In fiscal year 2004/2005, the State eliminated statutory revenue sharing received by counties (which was approximately \$182 million in fiscal year 2003/2004) and, in return, allowed the counties to advance the levy of their operating millage to July from December.

The additional monies from the earlier levy were utilized to create a reserve fund by the counties to replace lost statutory revenue sharing. The expectation is that when the reserve funds at individual counties become depleted, the counties will re-enter the State's statutory revenue sharing formula. It is very possible that the return of county statutory revenue sharing could be at the expense of city, village, and township statutory revenue sharing.

City of Owosso, Michigan

Legislative Matters

Revenue Sharing (Continued)

Considering the unknown impact of the State's budget crisis, the anticipated sunset of the statutory formula, and the elimination of the single business tax (see "Update on Business Tax Reform") on state-shared revenue, we encourage you to develop a contingency plan to deal with possible additional reductions to this revenue item.

Update on Business Tax Reform (and its impact on local government)

On August 9, 2006, the Michigan Legislature approved a voters' legislative "initiative" to repeal the Michigan Single Business Tax ("SBT") for tax years beginning after December 31, 2007, two years earlier than it was originally slated to end. In addition to the repeal, the law requires the Michigan Department of Treasury to prorate the SBT to result in the equivalent of zero tax on business activity occurring after December 31, 2007. Previously, the SBT was scheduled to be repealed for tax years beginning after December 31, 2009.

Currently, there is no plan for replacement of this \$1.9 billion in lost revenue to the State. If no replacement revenue is identified, statutory revenue sharing may become a target to fill the hole in the State's budget.

Cable Franchise Fees

The State of Michigan has joined a number of other states considering statewide cable TV franchising. There is a bill (HB 6456) that would create a state video service authorization system that would replace the current system of local franchising of cable TV providers, and also would apply to new providers who would provide service through phone lines. Providers would have to provide customers with local stations and "public access" stations, as is currently required for cable systems. Providers would have to pay a fee of up to 5 percent of gross revenues that would be given to local governments in lieu of the current local cable franchise fees. The Legislature had decided to wait until after the November elections to continue discussions regarding this bill; however, the bill has currently passed and is awaiting the governor's approval.

Task Force Report Issued on Local Government Finance

In 2005, the governor commissioned a task force to further study Michigan's Municipal Finance Model. The Commission has completed their work and released their report in May 2006. Findings of the report include:

- Revenue for local governments is flat, or declining, due to reductions in state revenue sharing and the interaction of the Headlee Amendment and Proposal A. Mature urban centers have been impacted the hardest.

City of Owosso, Michigan

Legislative Matters

Task Force Report Issued on Local Government Finance (Continued)

- While revenues have been restricted, many expenditures are increasing beyond the control of local government. The expenditures include, but are not limited to health care, pension liabilities, and public safety costs.
- The current finance system, based on obsolete revenue foundations, is not resilient or flexible enough to withstand out-migration of taxpayers, whether due to economic downturn or availability of developable land.
- Legacy costs of postemployment benefits to retired workers threaten to overtake the majority of available new revenue for local units.
- Deferring maintenance on critical infrastructure such as roads, sewers, water mains, and buildings to meet ongoing increases in operating expenditures has left many local governments with crumbling infrastructure and growing future cost liabilities.

The full report can be accessed at: www.migfoa.org.

Special Road Project Monies

As part of the governor's 2006/2007 budget package, \$80 million was proposed to assist local government to move forward on certain transportation projects and get greater access to federal transportation matching funds. The Legislature approved the governor's proposal as Public Acts 139, 140, and 141 of 2006. Michigan Department of Transportation officials are reviewing applications for the rest of the funding and the remaining recipients will be announced later this year.

Considering a Transit Tax?

Public Act 175 of 2006 was enacted which extends the previous five-year period allowed to levy taxes for public transportation to 25 years. This extended period provides local governments the ability to take advantage of federal funding that was allocated in 2005's federal transportation reauthorization. Certain federal grant requirements require that communities support a system for at least 25 years. This public transportation tax does, however, require voter approval.

911 Surcharge Sunset Extended

Local governments receiving monies under the Emergency Service Enabling Act to support 911 operations faced the potential elimination or change in the funding formula at December 31, 2006. To allow further analysis of this issue, the sunset of the Act was extended one year to December 31, 2007 (Public Act 249 of 2006).

City of Owosso, Michigan

Legislative Matters

Government Wins Headlee Challenge

The Court of Appeals upheld a trial court decision in July 2006 (A&E Parking v. Wayne County Metro, COA docket No. 261046) that the Wayne County Airport Authority has the right to charge user fees to the more than three dozen companies that sued the Airport Authority. The suit against the Airport Authority alleged that the fees charged to hotels, shuttle and rental car companies, and other users of the property that financially benefit from the airport's location should be deemed illegal taxes under the Headlee Amendment. In rendering their opinion in the Authority's favor, the Court considered the charges appropriate and not taxes for the following reasons:

State law permits fees because:

- The users, such as car rental companies and hotels with shuttles, get a benefit from the airport's existence.
- The fees are not calculated arbitrarily and the users aren't forced to pay the fees.
- The users could choose to take their business elsewhere and avoid the charge.

Despite the victory, it serves as a great reminder to local governments that fees must meet the tests established in the Bolt Case to avoid the classification of fees as unvoted taxes in violation of the Headlee Amendment.